

Appropriations Committee

Preliminary Report

(As Required by Rule 8)



February 2008

Members of the Appropriations Committee

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Overview

This report provides a projection of the state's General Fund financial picture for the current biennial budget, FY2007-08 and FY2008-09, and the following biennium, FY2009-10 and FY2010-11. The report aims to assist the Legislature with its fiscal planning as it begins to consider 2008 revenue and spending adjustments.

The projections for the current biennium incorporate the October 2007 revenue forecasts of the Nebraska Economic Forecasting Advisory Board, appropriations as enacted in the 2007 legislative session, and the Appropriations Committee preliminary budget adjustments.

The projections for the following biennium incorporate revenue forecasts based on a historical average methodology as calculated by the Legislative Fiscal Office, projected budget increases based on historical average increases for specific areas, and the annualized and on-going impacts of actions taken in the 2008 legislative session.

Financial Status - Current Biennium - Improved Slightly

Since Sine Die of the 2007 Legislative Session, the financial picture for the current biennium (FY08 / FY09) has actually improved. At Sine Die, the variance from the minimum General Fund reserve (commonly referred to as the surplus or shortfall) was predicted to be only \$310,862. The current estimate is a positive \$4.1 million. This incorporates higher revenue forecasts and lapse of unexpended prior year appropriations, offset by midbiennium budget adjustments as proposed by the Appropriations Committee including a large increase in TEEOSA school aid.

Actual and projected revenues have increased by \$164.6 million since Sine Die 2007. Actual receipts for FY2006-07 were \$47.3 million above forecast. In October 2007, the FY07-08 and FY08-09 forecasts

Changes in the Financial Status – Current Biennium				
<u>Millions of Dollars</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>Total</u>
Variance - Sine Die 2007				0.3
Change in actual/revised revenue forecasts	47.3	68.8	48.5	164.6
Lapse unexpended FY07 appropriations	0.0	28.8	0.0	28.8
To Cash Reserve Fund, above forecast receipts	0.0	(47.3)	(68.8)	(116.1)
Revised TEEOSA aid estimates	0.0	0.0	(53.1)	(53.1)
Non TEEOSA Deficits vs Pre Session allocation	0.0	4.3	(5.8)	(1.5)
Allocation for Post Hearing Adjustments	0.0	0.0	(7.0)	(7.0)
Change in Reserve & accounting adjustments	(4.5)	(0.1)	(7.1)	(11.7)
Variance - Committee Preliminary 2008				4.4

were revised by the Nebraska Economic Forecast Advisory Board by a total of \$117.3 million; \$68.8 million in FY07-08 and \$48.5 million in FY08-09.

The FY06-07 and FY07-08 additional revenues are considered “above the certified forecast” and

under current law are required to be transferred to the Cash Reserve Fund. The FY08-09 forecast won't be certified until the start of that fiscal year, therefore the \$48.5 million increase in the forecast for FY08-09 would be retained in the General Fund.

The higher actual/projected receipts, offset by required transfers to the Cash Reserve Fund, are mostly offset by increased appropriations per the Appropriations Committee Preliminary Budget. Over the two

year period, the preliminary budget adjustments total \$66.5 million of which over 80% is attributed to TEEOSA school aid. Included in this total is \$7 million set aside as a contingency for budget adjustments after the hearings.

Financial Status - Following Biennium - Deteriorated Significantly

While the current FY08/FY09 biennial budget would appear to end in a financially secure position, the prospects for the following biennium are not quite as positive. The current financial status (with the

Changes in the Financial Status – Following Biennium			
<u>Millions of Dollars</u>	<u>FY10</u>	<u>FY11</u>	<u>Total</u>
Variance - Sine Die 2007			(25.1)
Change in actual/revised revenue forecasts	23.4	0.0	23.4
Revised TEEOSA aid estimates	(104.2)	(153.0)	(257.1)
Non TEEOSA Deficits vs Pre Session allocation	(18.0)	(5.8)	(23.8)
Allocation for Post Hearing Adjustments	(7.0)	(7.0)	(14.0)
Change in Reserve & accounting adjustments	0.0	6.0	10.1
Totals of Items since Sine Die	(105.7)	(159.8)	(261.4)
Variance - Committee Preliminary 2008			(286.6)

Committee preliminary budget adjustments) yields a projected balance that is \$4.4 million **above** the minimum reserve. For the following biennium the ending balance is projected to be \$287 million **below** the required minimum reserve.

In the current biennium the higher appropriation levels (mostly due to TEEOSA school aid) since Sine Die 2007 are mostly offset by higher actual

and forecast revenues. However, this is not the case in the following biennium where the revenue estimates under the historical average methodology, changed by only \$23 million while the increase in the TEEOSA school aid estimate alone accounts for an additional \$257 million over the two year period.

The one bright spot going into the following biennium is the \$540 million Cash Reserve Fund balance that is projected to be carried forward from the current biennium into the next.

Good Chance for a Continued Decline in the Financial Status

As noted in the November 2007 report to the Tax Rate Review Committee, there are still considerable risks that the financial condition could deteriorate even more from that described above.

Compounding Effect of 2008 Budget Actions. At the present time, based on current forecasts and the Committee Preliminary budget, the financial status shows only \$4 million of funds available above the minimum reserve. Every dollar of the \$4 million used this biennium causes a \$3 reduction in the variance in the following biennium if the use of the monies is on-going.

While use of the available General Funds would add only \$12 million to the potential shortfall in the following biennium, this compounding impact could multiply if the amount of available funds this biennium is supplemented with transfers from the Cash Reserve Fund or other funds. This becomes a double-edged problem in that not only does this enhance the likely shortfall in the following biennium, but reduces the amount of contingency funds available at the same time.

Structural Imbalance As shown in line 35 in the financial status, a \$77 million structural imbalance between revenues and spending starts to emerge in FY08-09 with below average revenue growth and

higher spending growth. This structural imbalance expands in the following biennium as projected spending growth averages 6.6% substantially driven by the double digit growth in TEEOSA aid.

Declining Revenue Forecasts (?) The possibility of declining revenue forecasts over the next three years is very possible, maybe even likely. If this occurs, the level of the Cash Reserve Fund to draw upon is critical.

- The revenue estimates for the following biennium (FY10 and FY11) are based on the “historical average” methodology as the Forecast Board does not forecast revenues beyond the current biennial budget. However, using Global Insight forecasting service data, the Dept of Revenue (NDR) and Fiscal Office (LFO) have calculated very preliminary estimates for FY2009-10 and FY2010-11. Over the two year period, the average of these two estimates is \$192.5 million lower than the forecast yielded by the historical average method.
- Recently, Global Insight, source of our economic data for revenue forecasts have downgraded their outlook for the last calendar quarter of 2007 and for the first half of 2008—data that was not available for the October Forecast Board meeting. Further, at the same time the firm assigned a 35% probability to what is essentially a recession scenario, up from their earlier probability of 30%. *The most current assessment is a 40% probability.* Though the current year growth estimate is slightly above average, it clearly is a deceleration of rates in the prior four years that averaged year-over-year growth in excess of 8.5%, adjusted for tax rate and base changes. The same factors that are eroding economic forecasts concern us and how they may impact a Nebraska economy—rising fuel prices, tightened credit, slowdowns in home sales and weakening consumer confidence.
- The fiscal year just ended represents the fourth consecutive year of adjusted revenue growth above the long run average of 5.4%. The current fiscal year growth, based on the October Forecasting Board estimate is calculated to be 5.6%, very near the average—next year, again based on the revised forecast, is projected to grow, (rate and base adjusted), at a below average rate of 4.3%. Past history in General Fund revenue growth since 1981 demonstrates a clear pattern of growth rates, clustering of several years above average, followed by several years of below average growth, suggesting FY2008-09 may be the onset of a below average growth period.

Also since 1981, when comparing actual receipts to the forecast at Sine Die prior to the start of the fiscal year (ie... 12 to 14 months prior) there is a definite 4-5 year pattern. In other words, consecutive years where actual receipts exceed forecasts and then consecutive years where actual receipts will come in under forecast. Cumulative over time, the errors net out. In the current financial status, FY07-08 will be the fourth year of actual receipts exceeding forecasts.

Cash Reserve Fund, Save it for a Rainy Day

The Cash Reserve Fund balance is projected at \$540 million at the end of this biennium, and \$552 million at the end of the following biennium (with payback of cash flow borrowing for state health insurance funds). This is \$116 million higher than projected at Sine Die 2007 incorporating the “above certified” transfers for FY06-07 actual receipts (\$47.3 million) and projected for FY07-08 (\$68.8 million).

The Appropriations Committee preliminary budget does not include any additional use of the Cash Reserve Fund. On the surface, the \$552 million projected balance for the following biennium appears very high. However this amount can disappear very quickly in light of the \$287 million “shortfall” in the projected financial status for the following biennium under existing revenue estimates plus the potential for revenue declines under a recession scenario or simple forecasting errors as discussed previously.

TEEOSA School Aid

A significant cause of the decline in the financial condition can be attributed to TEEOSA school aid; not only the large change in the projected funding needs since Sine Die 2007 but the overall amount of TEEOSA aid and it's growth.

Significant Changes Since Sine Die 2007 In October 2007 state law requires NDE, with assistance from the Property Tax Administrator, the Legislative Fiscal Analyst, and the budget division of DAS to provide an annual estimate by November 15th of the necessary funding level for TEEOSA in the next school year. The General Fund estimated increased by \$13.8 million in FY08-09 mostly due to incorporating an enrollment growth increase into the cost growth factor. Estimated amounts for the following biennium, FY10 and FY11, increased significantly more attributed to higher projected spending growth (about .8% per year average) and a lower growth projection for property valuations, 3% rather than 5% largely attributed to flat residential valuations.

Spending and revenue data reported on the school districts Annual Financial Reports (AFR) is a key data element in calculation of the certified TEEOSA aid. In December, preliminary information from the FY06-07 AFR was available. A review of this data caused another substantial increase in the TEEOSA aid estimate as shown below. The change in the estimate was caused by eight different factors ranging from \$1.9 million to \$9.6 million. Historically, there are always changes in the aid estimated with the availability of new AFR data, some resulting in increased aid, others reducing the amount of aid. Sometimes all items tend to reduce the amount of aid, in this case almost all of the areas resulted in an increase in aid.

Chronology of TEEOSA Estimates	Actual FY2007-08	Estimated FY2008-09	Estimated FY2009-10	Estimated FY2010-11
Sine Die 2007 (General Funds Only)	753,555,548	832,498,267	879,970,261	935,036,175
Revised AFR data, reconfigure allowances	0	201,457	(248,325)	(264,037)
Actual 2007 property valuation information	0	(12,853,041)	(13,523,087)	(14,199,241)
Revise factor to adjust for "unused" LER yield	0	8,001,661	11,111,984	11,667,584
Revised spending growth (-.02% FY07, +1.0% FY08, +.6% FY09)	0	(477,952)	23,546,886	40,314,890
Updated state apportionment estimates	0	(36,610)	(5,310,993)	(587,581)
Enrollment growth, cost growth factor (FY09 .8%, FY10+FY11 +.5%)	0	18,850,913	12,455,741	13,153,262
Updated Insurance premium estimates	0	(679,572)	(696,561)	(713,975)
Reorganization incentive payments	0	834,516	0	0
Property valuation growth (3% growth per year rather than 5%)	0	0	25,272,344	52,566,475
Oct 2007 Joint Meeting (General Funds Only)	753,555,548	846,339,639	932,578,249	1,036,973,552
Actual FY07 AFR, higher total disbursement growth (6.0% vs 5.6%)	0	9,610,578	10,160,303	10,729,280
Actual FY07 AFR, lower federal categorical growth (1.1% vs 5.6%)	0	8,758,245	9,259,217	9,777,733
Actual FY07 AFR, lower disbursement items not in GFOE	0	6,720,895	7,105,331	7,503,229
Cost growth factor applied to higher GFOE	0	1,956,998	1,989,364	2,100,768
Actual FY07 AFR, lower "Other Receipts"	0	4,791,304	3,191,317	3,277,134
Lower effective yield from local effort rate	0	4,685,866	4,826,442	4,971,235
Early childhood program allocation	0	(3,000,000)	3,000,000	0
Summer School program allocation (no previous \$ estimate)	0	6,000,000	12,000,000	12,672,000
All other (net)	0	(314,843)	10,738	11,339
December 2007 Revised (General Funds Only)	753,555,548	885,548,683	984,120,960	1,088,016,270
Total Change since Sine Die 2007				
October 2007 Joint Meeting	0	13,841,372	52,607,988	101,937,376
December 2007 Update	0	39,209,044	51,542,711	51,042,719
Total Change – General Funds	0	53,050,416	104,150,699	152,980,095

Components of the Large Aid Growth While the section above describes the large changes in the overall estimate of TEEOSA aid they do not necessarily account for why TEEOSA aid is growing at a double digit rate over the next three years. The table below shows the major components contributing to this double digit growth.

In FY2008-09, about \$81 million of the \$132 million increase in TEEOSA aid is attributed to legislation enacted including expiration of the aid adjustment factor (enacted in 2002 and extended in 2004), LB1024-2006, and LB641-2007. While this legislation had been previously incorporated into the estimates and did not account for much of the change in projected amounts since Sine Die 2007 (except for the summer school provisions of LB641) it still is a significant component of the large FY2008-09 increase. Excluding these amounts, FY2008-209 aid would have grown at a 6.8% rate.

The large growth in FY10 and FY11 reflect the significant gap between school spending growth (projected at 5.6% per year) compared to below average property valuation growth (ie.. yield from local effort rate) of 3% per year.

Components of TEEOSA Growth	Actual FY2007-08	Estimated FY2008-09	Estimated FY2009-10	Estimated FY2010-11
<u>Current TEEOSA Estimate (General Funds Only)</u>				
Dollar Amount (General Funds Only)	753,555,548	885,539,917	984,111,931	1,088,006,970
\$ Change over Prior Year	52,209,320	131,984,368	98,572,014	103,895,039
% Change over Prior Year	7.4%	17.5%	11.1%	10.6%
<u>Components of \$ Change Over Prior Year</u>				
"Normal" program growth (1)	36,860,151	44,709,368	51,116,561	54,002,608
Ag Land to 75% (LB968-2006)	12,509,892	in base	in base	in base
Expiration of aid adjustment factor	0	32,000,000	in base	in base
LB 1024 Inflate SPED+transportation allowances	0	17,200,000	in base	in base
LB1024 - cost growth factor, board vote	0	23,800,000	in base	in base
LB1024 - minimum NEEDS	0	875,000	2,425,000	2,100,000
LB 641 - Summer school programs (first yr estimate)	0	6,000,000	6,000,000	in base
LB 577 - Early Childhood programs (second year estimate)	2,839,277	1,100,000	in base	in base
Extraordinary state apportionment (temporary school fund)	0	(13,700,000)	3,000,000	3,500,000
Difference in growth - yield from local effort rate vs GFOE (est)	0	10,400,000	36,030,453	44,292,431
Difference in growth - Other local receipts vs GFOE (estimated)	0	9,600,000	0	0
Total \$ Increase	52,209,320	131,984,368	98,572,014	103,895,039
<u>Components of % Change Over Prior Year</u>				
"Normal" program growth (1)	5.3%	5.9%	5.8%	5.5%
Ag Land to 75% (LB968-2006)	1.8%	na	na	na
Expiration of aid adjustment factor	0.0%	4.2%	na	na
LB 1024 Components (gross impact)	0.0%	5.6%	na	na
LB 641 - Summer school programs	0.0%	0.8%	0.7%	na
Extraordinary state apportionment	0.0%	-1.8%	0.3%	na
Valuation growth vs GFOE growth	0.0%	1.4%	4.1%	4.5%
Valuation growth vs GFOE growth	0.0%	1.3%	0.0%	0.0%
Total % Increase	7.4%	17.5%	11.1%	10.6%

(1) Based on historical average spending and valuation growth, a "normal" growth in TEEOSA aid would be in the 5.5% range.

TEEOSA Aid Growth in Perspective While FY08-09 is a very large growth in TEEOSA aid, the average growth over the past 10 years (including FY08-09) is 4.3%. Since FY1991-92, the first full year implementation of LB1059 which created TEEOSA, the average growth in aid has been 5.6% .

A chronology of TEEOSA aid is shown below. Please note that these numbers reflect total TEEOSA certified aid which is funded with state General Funds as described above plus approximately \$15.5 million of Insurance Premium taxes allocated to school aid.

Chronology of TEEOSA Aid (all funds)	TEEOSA		
	(all funds)	\$ Change	% Change
FY1989-90	133,720,830	--	--
FY1990-91 (First year of LB1059-TEEOSA, not fully implemented until FY92)	311,462,100	177,741,270	132.9%
FY1991-92 (Aid equaled \$133M plus est revenue from tax increase)	357,283,727	45,821,627	14.7%
FY1992-93	370,668,616	13,384,889	3.7%
FY1993-94	383,069,609	12,400,993	3.3%
FY1994-95	400,230,135	17,160,526	4.5%
FY1995-96	414,933,814	14,703,679	3.7%
FY1996-97 (first year insurance premium included as part of TEEOSA)	447,243,594	32,309,780	7.8%
FY1997-98	465,944,483	18,700,889	4.2%
FY1998-99 (Levy limit \$1.10, prior yr avg = \$1.3045, fixed local effort rate)	591,240,235	125,295,752	26.9%
FY1999-00	594,042,250	2,802,015	0.5%
FY2000-01	561,326,416	(32,715,834)	-5.5%
FY2001-02 (Levy limit, to \$1.00)	645,080,733	83,754,317	14.9%
FY2002-03 (Aid adjustment factor added)	661,928,207	16,847,474	2.6%
FY2003-04 (Levy limit, to \$1.05)	640,701,878	(21,226,329)	-3.2%
FY2004-05 (full impact, 0% allowable growth/cost growth factor)	634,317,276	(6,384,602)	-1.0%
FY2005-06 (start restoration of cost growth factor)	700,594,282	66,277,006	10.4%
FY2006-07	718,467,329	17,873,047	2.6%
FY2007-08 (Early childhood, ag land to 75%))	768,613,973	50,146,644	7.0%
FY2008-09* (Aid adjust factor expires, cost growth, inflate allowances, summer school)	901,022,917	132,408,944	17.2%
FY2009-10* (Spending growth at 5.7%, valuation growth at 3%)	999,982,006	98,959,089	11.0%
FY2010-11* (Spending growth at 5.6%, valuation growth at 3%)	1,104,273,797	104,291,791	10.4%

Avg Annual % Change:

10 Year: FY98-99 actual to FY08-09 estimate	4.3%
10 Year: FY00-01 actual to FY10-11 estimate	7.0%
Average annual growth since LB1059 fully implemented, through FY08-09	5.6%

Major Differences, Committee and Governor

Except for funds transfers, the Appropriations Committee preliminary budget is relatively close to the Governors recommendation. With respect to appropriations, over the two year period the Committee is \$1.8 million below the Governors recommendation. When incorporating an allocation for post hearing adjustments, the Committee is still within \$5.2 million of the Governors recommendation. The Committee and Governor agree on most major spending items including \$10 million in FY07-08 for replacement of the University and State College student information system, a \$7 million reduction in amount of funds needed for homestead exemption reimbursement, and the \$53 million increase in TEEOSA school aid. Besides the allocation for post hearing adjustments, three items account for most of the difference between the Committee and Governor as noted below.

General Fund Appropriations	FY2007-08	FY2008-09	2 Yr Total
Committee (specific items)	674,734	58,863,890	59,538,624
Governor	5,525,259	55,861,121	61,386,380
Difference - Specific Items	(4,850,525)	3,002,769	(1,847,756)
Allocation for Post Hearing Adjustments	0	7,000,000	7,000,000
Total Difference per Financial Status	(4,850,525)	10,002,769	5,152,244

<u>Significant Differences by Item</u>	<u>FY2007-08</u>	<u>FY2008-09</u>	<u>2 Yr Total</u>
Allocation for Post Hearing Adjustments	0	7,000,000	7,000,000
School litigation costs	(1,200,000)	0	(1,200,000)
Lapse regional center funds to the General Fund.	(3,500,000)	0	(3,500,000)
Rate increase for developmental disability providers.	0	3,000,000	3,000,000
All Other	(150,525)	2,769	(147,275)
Total Difference per Financial Status	(4,850,525)	10,002,769	5,152,244

The largest difference between the Committee and Governor is in the various fund transfers. At this point, the Committee did not include any additional fund transfers as compared to the Governors recommendation as noted below.

<u>General Fund Transfers and Lapses</u>	<u>Governor</u>	<u>Committee</u>
Transfer Out - to Highway Funds	(15,000,000)	0
Transfer In - Securities Cash and Tobacco Products	10,000,000	0
<u>Cash Reserve Fund Transfers</u>	<u>Governor</u>	<u>Committee</u>
To Property Tax Credits	(75,000,000)	0

General Fund Financial Status

Appropriations Committee Preliminary Budget

February 4, 2008	Actual FY2006-07	Biennial Budget FY2007-08 FY2008-09		Following Biennium FY2009-10 FY2010-11	
1 BEGINNING BALANCE					
2 Beginning Cash Balance	565,963,976	591,204,274	311,792,875	215,348,914	82,613,434
3 Cash Reserve transfers-automatic	(259,929,524)	(191,436,773)	(68,814,000)	0	0
4 Carryover obligations from FY07	0	(171,012,056)	0	0	0
5 Allocation for potential deficits	0	0	(5,000,000)	(5,000,000)	(5,000,000)
6 Unobligated Beginning Balance	306,034,452	228,755,445	237,978,875	210,348,914	77,613,434
7 REVENUES					
8 Net Receipts (Oct 07 NEFAB)	3,403,644,627	3,458,000,000	3,589,000,000	3,792,000,000	4,014,000,000
9 General Fund transfers-out	(9,140,000)	(128,700,000)	(120,200,000)	(120,200,000)	(120,200,000)
10 General Fund transfers-in	in receipts	in forecast	in forecast	0	0
11 Cash Reserve transfers	15,674,107	60,177,767	54,990,505	0	0
12 2008 General Fund transfers-out	0	0	0	0	0
13 2008 General Fund transfers-in	0	0	0	0	0
14 2008 Cash Reserve transfers	0	0	0	0	0
15 2008 Revenue Bills	0	0	0	0	0
16 General Fund Net Revenues	3,410,178,734	3,389,477,767	3,523,790,505	3,671,800,000	3,893,800,000
17 APPROPRIATIONS					
18 Appropriations Per 2007 Session	3,125,008,912	3,305,700,963	3,480,556,576	3,480,556,576	3,480,556,576
19 Mainline budget adjustments (following biennium)	0	0	0	189,861,730	384,953,150
20 2008 Mainline Budget Changes - Non TEEOSA	0	674,734	5,813,474	17,966,474	5,813,474
21 2008 Mainline Budget Changes - TEEOSA	0	0	53,050,416	104,150,700	152,980,095
22 2008 Allocation for Post Hearing Adjustments	0	0	7,000,000	7,000,000	7,000,000
23 2008 State Claims	0	64,640	0	0	0
24 2008 "A" Bills	0	0	0	0	0
25 General Fund Appropriations	3,125,008,912	3,306,440,337	3,546,420,466	3,799,535,480	4,031,303,295
26 ENDING BALANCE					
27 Dollar ending balance (Financial Status as shown)	591,204,274	311,792,875	215,348,914	82,613,434	(59,889,860)
28 Dollar ending balance (at Minimum Reserve)		--	210,996,751	--	226,629,580
29 Excess (shortfall) from Minimum Reserve		--	4,352,164	--	(286,519,440)
30 Biennial Reserve (%)			3.1%		-0.8%
General Fund Appropriations					
31 Annual % Change - Appropriations	7.0%	3.9%	7.3%	7.1%	6.1%
32 Two Year Average	7.4%	--	5.6%	--	6.6%
General Fund Revenues					
33 Est. Revenue Growth (rate/base adjusted)	7.4%	5.6%	4.3%	4.5%	5.8%
34 Two Year Average	8.7%	--	4.9%	--	5.2%
34 Five Year Average	6.6%	--	7.0%	--	5.2%
35 Structural Revenues vs Approp.	269,495,715	22,859,663	(77,620,466)	(127,735,480)	(137,503,295)

CASH RESERVE FUND	FY2006-07	FY2007-08	FY2008-09	FY2009-10	FY2010-11
Projected Ending Balance-Cash Reserve Fund	516,087,791	542,096,797	540,080,292	540,080,292	552,080,292

Cash Reserve Fund

The Cash Reserve Fund balance is projected at \$540 million at the end of this biennium. This is \$116 million higher than projected at Sine Die 2007 incorporating the “above certified” transfers for FY06-07 actual receipts (\$47.3 million) and projected for FY07-08 (\$68.8 million). The current projected status of the Cash Reserve Fund is shown below.

The Appropriations Committee preliminary budget does not include any use of the Cash Reserve Fund. The Governor recommended transferring a total of \$75 million from the Cash Reserve Fund to Property Tax Credit Fund which would increase the credit amounts for FY08-09 from \$115 million to \$190 million.

Table 1 Cash Reserve Fund

	Estimated FY2006-07	Estimated FY2007-08	Estimated FY2008-09	Estimated FY2009-10	Estimated FY2010-11
Beginning Balance	273,616,790	516,087,791	542,096,797	540,080,292	540,080,292
Excess of certified forecasts (line 3 in Status)	259,929,524	191,436,773	68,814,000	0	0
To/from Gen Fund, pre 2007 Session law	(15,674,107)	(60,177,767)	(54,990,505)	0	0
To NCCF Eastern Nebr Vets Home	(1,784,416)	0	0	0	0
To NCCF, Non-long term construction projects	0	(75,000,000)	(9,590,000)	0	0
To NCCF, Assurity Life acquisition	0	(12,000,000)	0	0	0
To Job Training Cash Fund	0	(5,000,000)	(5,000,000)	0	0
To Microenterprise Development Program	0	(1,000,000)	(1,000,000)	0	0
To Building Entrepreneurial Communities Act	0	(250,000)	(250,000)	0	0
To/From state employee health insurance fund	0	(12,000,000)	0	0	12,000,000
2008 Session Transfers		0	0	0	0
Ending Balance	516,087,791	542,096,797	540,080,292	540,080,292	552,080,292

General Fund Revenues

Revenue Forecasts

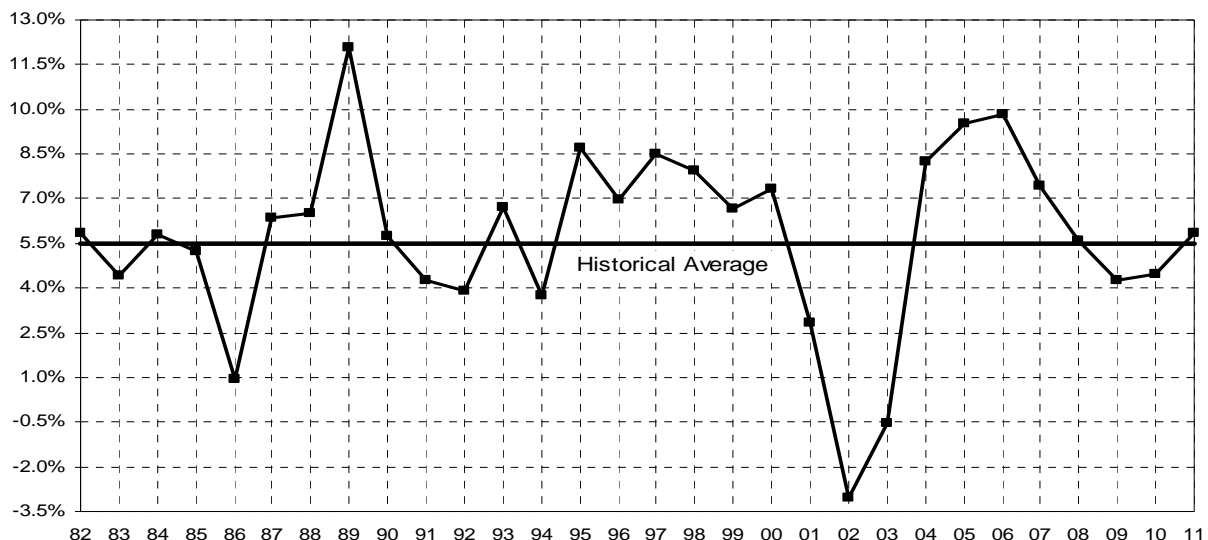
Revenue estimates for FY2007-08 and FY2008-09 are the October 2007 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). These forecasts yield a projected adjusted revenue growth of 5.6% in FY07-08 and 4.3% in FY08-09, an average growth of 4.9%, just slightly below average.

For the following biennium or what's commonly referred to as the "out years", the preliminary estimates for FY2009-10 and FY2010-11 are prepared by the Legislative Fiscal Office (LFO) using the "capped" historical average methodology. This "smoothing" technique derives a revenue growth for the "out years" by calculating the level of revenues that would yield a five year average growth (FY04 to FY09) roughly equal to the historical average from FY81 to FY07 (5.4%). Under this method, revenue growth for the two years would average 5.2%, 4.5% in FY10 and 5.8% in FY11.

Table 2 - General Fund Revenue Forecasts

	NEFAB FY2006-07	NEFAB FY2007-08	NEFAB FY2008-09	LFO Prelim FY2009-10	LFO Prelim FY2010-11
<u>Actual/Forecast</u>					
Sales and Use Tax	1,303,826,416	1,309,000,000	1,380,000,000	1,437,000,000	1,512,000,000
Individual Income Tax	1,650,895,394	1,681,000,000	1,770,000,000	1,900,000,000	2,025,000,000
Corporate Income Tax	213,027,010	241,000,000	238,000,000	252,000,000	283,000,000
Miscellaneous receipts	240,582,953	227,000,000	201,000,000	203,000,000	194,000,000
Total General Fund Revenues	3,408,331,773	3,458,000,000	3,589,000,000	3,792,000,000	4,014,000,000
<u>Adjusted Growth</u>					
Sales and Use Tax	7.5%	3.0%	4.9%	4.0%	4.4%
Individual Income Tax	11.3%	8.4%	4.8%	5.0%	6.6%
Corporate Income Tax	-16.4%	12.6%	-1.1%	4.8%	11.1%
Miscellaneous receipts	13.2%	-7.3%	1.5%	3.1%	2.2%
Total General Fund Revenues	7.4%	5.6%	4.3%	4.5%	5.8%
Five Yr Average	6.6%	--	7.0%	--	5.2%

General Fund Adjusted Revenue Growth



General Fund Transfers-Out

General Fund Transfers-Out accounts for funds that are transferred from the General Fund to another fund within the state treasury. These items have the same affect as an appropriation but are not expended from the General Fund as such and therefore are shown under the revenue category as transfers-out from the General Fund (see line 9 on the Financial Status) and subsequently expended from the receiving fund.

The Appropriations Committee preliminary budget does not include any changes from those enacted during the 2007 legislative session. At this time, the Committee did not include the \$15 million transfer to the Roads Operations Cash Fund as recommended by the Governor.

Table 3 General Fund Transfers-Out

Excludes CRF Transfers	FY2006-07	FY2007-08	FY2008-09	FY2009-10	FY2010-11
Ethanol Credits (EPIC Fund)	(9,000,000)	(5,500,000)	(2,500,000)	(5,500,000)	(2,500,000)
Trail Development Assistance Fund	(140,000)	0	0	0	0
Ethanol Credits (EPIC Fund) (LB322-2007)	0	(15,500,000)	0	0	0
Property Tax Credit Fund (LB367-2007)	0	(105,000,000)	(115,000,000)	(115,000,000)	(115,000,000)
Water Resources Cash Fund (LB701-2007)	0	(2,700,000)	(2,700,000)	(2,700,000)	(2,700,000)
2008 Session Changes	0	0	0	0	0
Total-General Fund Transfers-Out	(9,140,000)	(128,700,000)	(120,200,000)	(120,200,000)	(120,200,000)

General Fund Transfers-In

There are only a few instances in statute where monies in a cash fund can be transferred to the General Fund at the discretion of the Legislature. For accounting purposes, these are shown as “Transfers in” and are included as revenues. The transfers shown below, enacted in the 2007 Session, are already incorporated into the “Net Receipts” figures of the NEFAB forecasts.

The Appropriations Committee preliminary budget does not include the \$10 million of transfers-in as recommended by the Governor; \$4 million from the Securities Act Cash Fund and \$6 million from the Tobacco Products Administration Cash Fund

Table 4 General Fund Transfers-In

	FY2006-07	FY2007-08	FY2008-09	FY2009-10	FY2010-11
Securities Act Cash Fund	16,000,000	11,000,000	11,000,000	0	0
Tobacco Products Admin Cash Fund	6,000,000	0	0	0	0
Dept of Insurance Cash Fund	3,000,000	3,000,000	3,000,000	0	0
Collection Agency Cash Fund	0	350,000	0	0	0
Dept of Motor Vehicles Cash Fund	1,500,000	0	0	0	0
Charitable Gaming Oper Fund	250,000	0	0	0	0
2008 Session Changes	0	0	0	0	0
Total General Fund Transfers-In	26,750,000	14,350,000	14,000,000	0	0

General Fund Appropriations

The financial status shown includes the Appropriations Committee preliminary recommendation for current year deficits (FY2007-08) and adjustments for FY2008-09, the second year of the biennial budget. These budget adjustments are concentrated in only a few large dollar issues as shown below.

Major Items-Committee Preliminary Adjustments	FY2005-06	FY2006-07	Two Yr Total
TEEOSA aid, fund certified level	0	53,050,416	53,050,416
Replacement of Student Information System (University+Colleges)	10,000,000	0	10,000,000
Rate increase for developmental disability providers. (rate equity)	0	3,000,000	3,000,000
Health Insurance costs (CY2008 rates)	1,265,498	2,657,567	3,923,065
Defined benefit retirement plans	0	196,658	196,658
Utilize one-time SCAAP funds to offset GF (Corrections)	(215,000)	0	(215,000)
CIR related salary adjustments (net)	(600,788)	(110,853)	(711,641)
Homestead exemption	(7,000,000)	0	(7,000,000)
Lapse regional center funds to the General Fund.	(3,500,000)	0	(3,500,000)
All Other (net)	725,024	70,102	795,126
Total - Specific Items	674,734	58,863,890	59,538,624
Allocation for Post Hearing Adjustments	0	7,000,000	7,000,000
General Fund Total	674,734	65,863,890	66,538,624

There are several large items that have not been included at this point in time, subject to further review after the budget hearings. *THIS LIST PROVIDES EXAMPLES AND IS NOT ALL INCLUSIVE NOR DOES BEING LISTED IMPLY ANY PRIORITY OVER ITEMS NOT LISTED.*

Other Items Not Funded	FY2005-06	FY2006-07	Two Yr Total
School litigation costs	1,200,000	0	1,200,000
Restoration / reallocation of regional center savings	3,500,000	0	3,500,000
Fully fund developmental disability rate equity issue	0	3,584,431	3,584,431
Mead ARDC contamination investigation & clean-up - additional funds	1,300,000	0	1,300,000
Subtotal - Requested Items	6,000,000	3,584,431	9,584,431
A Bills	???	???	???
Revenue Bills	???	???	???
Total – Additional Unfunded Items	???	???	???

Appendix A

Detailed Listing of General Fund Mid-Biennium Budget Adjustments

Agency	Item	Governor FY2007-08	Governor FY2008-09	Preliminary FY2007-08	Preliminary FY2008-09	Difference from Governor	
						FY2007-08	FY2008-09
Court	Reallocate judgeships (correct LB377A)	124,877	129,190	124,877	129,190	0	0
Court	Reallocate judgeships (correct LB377A)	(121,275)	(121,275)	(121,275)	(121,275)	0	0
Court	Interpreter expenses	126,862	63,431	126,862	126,862	0	63,431
Attorney Gen	School litigation costs	1,200,000	0	0	0	(1,200,000)	0
Treasurer	Reduction to offset Treasury Management increase	(10,000)	0	(10,000)	0	0	0
Education	Fed grant supplant state funds, Nebraska Transcript Project	(128,070)	(121,930)	(128,070)	(121,930)	0	0
Education	TEEOSA aid, fund certified level	0	53,018,733	0	53,050,416	0	31,683
Revenue	Enhanced enforcement technical resources	500,000	0	500,000	0	0	0
Revenue	Homestead exemption	(7,000,000)	0	(7,000,000)	0	0	0
Fire Marshal	Retirement payout	(26,670)	0	(26,670)	0	0	0
Fire Marshal	Retirement payout	26,670	0	26,670	0	0	0
HHS System	Increase federal and patient receipts - Vets Homes	0	(74,510)	0	(74,510)	0	0
HHS System	Rate increase for developmental disability providers.	0	0	0	3,000,000	0	3,000,000
HHS System	Reallocate regional center "savings" per behavioral health reform.	0	0	5,400,000	5,800,000	5,400,000	5,800,000
HHS System	Reallocate regional center "savings" per behavioral health reform.	0	0	(5,400,000)	(5,800,000)	(5,400,000)	(5,800,000)
HHS System	Lapse regional center funds to the General Fund.	0	0	(3,500,000)	0	(3,500,000)	0
Vets Affairs	Add Veterans Service Officer - disability determination	0	74,510	0	74,510	0	0
Corrections	Additional inmate medical costs	250,000	0	250,000	0	0	0
Corrections	Utilize one-time SCAAP funds	(215,000)	0	(215,000)	0	0	0
Coord Comm	Use additional cash fund authority to offset GF	(15,000)	(15,000)	0	0	15,000	15,000
State Colleges	Student Information System and ERP System	0	0	2,778,000	0	2,778,000	0
University	Replacement of Student Information System	10,000,000	0	7,222,000	0	(2,778,000)	0
Hist Society	Savings from organizational changes	(28,000)	(28,000)	(15,770)	(15,770)	12,230	12,230
State Patrol	Law Enforcement Intelligence Network costs	177,755	119,575	0	0	(177,755)	(119,575)
Indian Comm.	Use additional cash to offset GF	(1,600)	0	(1,600)	0	0	0
Retirement	Excess appropriation for State Patrol Plan contribution	0	(448,139)	0	(448,139)	0	0
Retirement	K-12 School employee retirement plan funding	0	644,797	0	644,797	0	0
TERC	Contract mediation and add 1.0 FTE support staff for appeals	0	73,025	0	73,025	0	0
All--	CIR ruling, reallocate salaries (net)	(600,788)	(110,853)	(600,788)	(110,853)	0	0
All--	Health insurance rate changes	1,265,498	2,657,567	1,265,498	2,657,567	0	0
General Funds - Specific Items		5,525,259	55,861,121	674,734	58,863,890	(4,850,525)	3,002,769
Allocation for Post Hearing Adjustments		0	0	0	7,000,000	0	7,000,000
Total General Funds - New Appropriations		5,525,259	55,861,121	674,734	65,863,890	(4,850,525)	10,002,769

Appendix B
Summary of the FY08 / FY09 General Fund Budget with Preliminary Adjustment
(Excluding Allocation for Post Hearing Adjustment)

	w/o Deficits FY2006-07	w/o deficits FY2007-08	Prelim Deficits FY2007-08	Current FY2007-08	Total Per 2007 Session FY2008-09	2008 Session Prelim FY2007-08	Current FY2008-09	Change over Prior Yr (w/o deficits)				2 Yr Avg Change
								FY2007-08		FY2008-09		
								\$	%	\$	%	
<u>AGENCY OPERATIONS</u>												
University/Colleges	495,353,972	515,872,239	10,000,000	525,872,239	537,474,238	0	537,474,238	20,518,267	4.1%	21,601,999	4.2%	4.2%
Health & Human Services System	218,236,466	212,029,026	(7,452,073)	204,576,953	227,433,202	(2,599,322)	224,833,880	(6,207,440)	-2.8%	12,804,854	6.0%	1.5%
Correctional Services	136,796,113	142,067,755	598,715	142,666,470	147,197,860	1,262,828	148,460,688	5,271,642	3.9%	6,392,933	4.5%	4.2%
Courts	62,225,402	65,212,791	145,837	65,358,628	67,459,602	306,261	67,765,863	2,987,389	4.8%	2,553,072	3.9%	4.4%
State Patrol	48,010,563	49,848,038	227,005	50,075,043	52,352,142	570,292	52,922,434	1,837,475	3.8%	3,074,396	6.2%	5.0%
Revenue	27,288,745	28,300,210	654,172	28,954,382	29,034,430	409,873	29,444,303	1,011,465	3.7%	1,144,093	4.0%	3.9%
Retirement Board	32,203,573	19,140,688	0	19,140,688	19,134,688	196,658	19,331,346	(13,062,885)	-40.6%	190,658	1.0%	-22.5%
Other 40 Agencies	131,348,805	140,293,570	(1,898,922)	138,394,648	143,661,710	(3,133,116)	140,528,594	8,944,765	6.8%	235,024	0.2%	3.4%
Total-GF Operations	1,151,463,639	1,172,764,317	2,274,734	1,175,039,051	1,223,747,872	(2,986,526)	1,220,761,346	21,300,678	1.8%	47,997,029	4.1%	3.0%
<u>STATE AID TO INDIVIDUALS</u>												
Medicaid	558,888,505	576,715,481	0	576,715,481	590,203,015	0	590,203,015	17,826,976	3.2%	13,487,534	2.3%	2.8%
Public Assistance	231,888,617	234,052,687	0	234,052,687	241,622,331	0	241,622,331	2,164,070	0.9%	7,569,644	3.2%	2.1%
Developmental disabilities, community based	64,415,818	66,634,494	0	66,634,494	68,166,316	3,000,000	71,166,316	2,218,676	3.4%	4,531,822	6.8%	5.1%
Behavioral Health, community based	44,577,915	60,328,781	5,400,000	65,728,781	61,765,686	5,800,000	67,565,686	15,750,866	35.3%	7,236,905	12.0%	23.1%
Childrens Health Insurance (CHIP)	10,842,937	10,826,659	0	10,826,659	11,761,892	0	11,761,892	(16,278)	-0.2%	935,233	8.6%	4.2%
Aging Programs	6,042,213	6,497,868	0	6,497,868	6,967,193	0	6,967,193	455,655	7.5%	469,325	7.2%	7.4%
Higher Ed Student Aid programs	5,766,815	6,766,815	0	6,766,815	6,766,815	0	6,766,815	1,000,000	17.3%	0	0.0%	8.3%
Public Health Aid	3,964,166	3,944,700	0	3,944,700	4,024,776	0	4,024,776	(19,466)	-0.5%	80,076	2.0%	0.8%
Community health centers	2,675,000	3,525,000	0	3,525,000	3,525,000	0	3,525,000	850,000	31.8%	0	0.0%	14.8%
All Other Aid to Individuals/Other	9,462,608	8,734,190	0	8,734,190	8,834,190	0	8,834,190	(728,418)	-7.7%	100,000	1.1%	-3.4%
Total-GF Aid to Individuals/Other	938,524,594	978,026,675	5,400,000	983,426,675	1,003,637,214	8,800,000	1,012,437,214	39,502,081	4.2%	34,410,539	3.5%	3.9%
<u>STATE AID TO LOCAL GOVT</u>												
State Aid to Schools (TEEOSA)	701,346,228	753,555,548	0	753,555,548	832,498,267	53,050,416	885,548,683	52,209,320	7.4%	131,993,135	17.5%	12.4%
Special Education	174,280,179	179,508,584	0	179,508,584	184,893,842	0	184,893,842	5,228,405	3.0%	5,385,258	3.0%	3.0%
Aid to Community Colleges	68,566,476	84,066,476	0	84,066,476	87,266,476	0	87,266,476	15,500,000	22.6%	3,200,000	3.8%	12.8%
Homestead Exemption	56,473,000	70,056,960	(7,000,000)	63,056,960	76,120,104	0	76,120,104	13,583,960	24.1%	6,063,144	8.7%	16.1%
Aid to ESU's	11,546,488	11,362,638	0	11,362,638	16,089,570	0	16,089,570	(183,850)	-1.6%	4,726,932	41.6%	18.0%
Aid to Cities	11,257,193	11,257,193	0	11,257,193	11,257,193	0	11,257,193	0	0.0%	0	0.0%	0.0%
Aid to Counties	4,965,866	4,965,866	0	4,965,866	4,965,866	0	4,965,866	0	0.0%	0	0.0%	0.0%
County jail cost reimbursement	3,910,000	3,910,000	0	3,910,000	3,910,000	0	3,910,000	0	0.0%	0	0.0%	0.0%
Early Childhood programs	3,680,471	3,626,267	0	3,626,267	3,615,426	0	3,615,426	(54,204)	-1.5%	(10,841)	-0.3%	-0.9%
Other Aid to Local Govt	22,957,662	24,449,617	0	24,449,617	24,403,924	0	24,403,924	1,491,955	6.5%	(45,693)	-0.2%	3.1%
Total-GF Aid to Local Govt	1,058,983,563	1,146,759,149	(7,000,000)	1,139,759,149	1,245,020,668	53,050,416	1,298,071,084	87,775,586	8.3%	151,311,935	13.2%	10.7%
<u>CAPITAL CONSTRUCTION</u>	31,878,981	8,150,822	0	8,150,822	8,150,822	0	8,150,822	(23,728,159)	-74.4%	0	0.0%	-49.4%
<u>TOTAL GENERAL FUNDS</u>	3,180,850,777	3,305,700,963	674,734	3,306,375,697	3,480,556,576	58,863,890	3,539,420,466	124,850,186	3.9%	233,719,503	7.1%	5.5%